

## **National Security Economic Growth Strategy**

### **Missouri Strategic Initiative for Economic Growth White Paper**

#### ***Identify a need or problem***

The National Security (NS) industry in Missouri is composed of companies and academic institutions that support and supply the efforts of our government to protect United States homeland and to protect our nation's interests abroad. The industry also includes the agencies, missions, installations, and services of the U.S. Department of Defense (DoD) within our borders, as well as those of the U.S. Departments of Homeland Security (DHS), Justice (DoJ), Energy (DoE), and State.

The existence of a substantial NS industry in Missouri had its roots in World War II when our state played a critical role in training our troops and supplying the nation's war efforts. That tradition of supporting our nation's defense has led to the growth of major National Security companies, along with world-class academic, research and technology transfer institutions that support company growth, and solve fundamental scientific and engineering questions. In addition, Missouri hosts several NS installations and facilities of national importance, including the U.S. Army's Maneuver Support Center of Excellence at Fort Leonard Wood (FLW); Whiteman Air Force Base, the home of 509<sup>th</sup> Bomb Wing's B-2 Spirit stealth bomber; the Missouri National Guard Headquarters and subordinate installations; the National Geospatial-Intelligence Agency (NGA) Operations Center, which develops imagery and map-based intelligence for national defense; and DoE's Kansas City Plant, which provides 85% of the components for our nation's nuclear weapons.

Even though the NS industry is critical to Missouri's economy and promises the potential of significant future growth, there is currently no coordinated, state-level strategy to maximize that growth and to insure against the loss of the industry to other regions and states. In order to be most effective at retaining and creating NS industry jobs and in maximizing our state's growth potential, Missouri needs an economic development strategy that focuses on the following key efforts:

1. Work with Missouri's elected representatives and other leaders to attract new governmental organizations involved in National Security, or to expand such organizations that already exist in Missouri;
2. Create a mechanism to insure that Missouri benefits from, or is not negatively impacted by, the next round of Base Realignment and Closure (BRAC) decisions;
3. Target the attraction, growth and retention of private companies that do business with National Security agencies both inside and outside of Missouri; and
4. Fund research and technology development at Missouri's academic institutions that provide specific, value-added development benefits for the National Security industry, with a focus on producing greater engineering and advanced manufacturing capabilities.

#### ***Significance of the opportunity***

Missouri's National Security industry received over \$20 billion in direct federal support and investments in the last year, not including foreign investment in national security-related products. Missouri is seventh in the nation in Defense procurements and St. Louis ranks second in Defense outlays.

Missouri has well over 50,000 employees in its National Security industries with over 2,300 organizations receiving federal contracts and grants, making the sector one of our largest employers. This includes over 16,000 active duty military and about 10,000 Defense civilians. Missouri has over 25,000 National Guard and Reserve members and ranks fifth in Reserve Component outlays.

Even though Missouri has a significant concentration of NS industry locations, employment and wealth creation, our state has not worked in a coordinated fashion for more than a decade to seize opportunities for major expansions of the industry. In contrast, a number of other states have proven that aggressive economic development strategies aimed at spurring NS industry growth, particularly the growth of employment and investment directly related to agencies and installations, can produce significant and long-lasting results.

One recent example of how economic development efforts can impact NS industry growth was the BRAC process and decisions made in 2005<sup>1</sup>. While BRAC 2005 caused a net loss of 3,679 NS industry jobs in Missouri, our neighboring states fared substantially better. Arkansas gained 3,585 jobs, Kansas gained 3,582, Tennessee gained 1,088, and Oklahoma gained 3,919. Many billions of dollars in federal funding will follow these new jobs over many years, as well as jobs and investment in the private companies that support the BRAC changes. To be sure, many mission-related and other factors entered into the federal government's decisions to increase or decrease jobs and investment, but one undeniable fact emerged from the process: those states with the best organized effort to anticipate federal needs—including providing timely and well researched information, the coordination of state agency cooperation and the provision of incentives to attract supporting organizations and companies—fared best. One example of a well organized, state-level effort was the Kansas Governor's Military Council, created by Executive Order 06-02. The Council was the state's point in "assisting in development, coordination, and execution of the state strategy" related to the BRAC process<sup>2</sup>.

Recent announcements by the Secretary of Defense that substantial decreases in military spending are likely in the near future probably mean that competition for NS industry purchases and funding will become even more intense in the future. Given its history, the expertise of its workforce, and concentration of companies and agencies, Missouri has the great potential to compete well even in this more difficult environment for growth. In order to realize this potential, however, Missouri must heed the experience of other states and implement a much more coordinated and robust strategy.

### ***Relevant data***

The impact of Missouri's NS industry as a whole has not been studied comprehensively within the past several years. While DoD spending information is readily available, for example, the overall impact of NS industry spending, investment, and employment is not well understood. The latest and best analysis comes from the Missouri Economic Research and Information Center (MERIC), which conducted a 2008 analysis of the Defense industry in Missouri<sup>3</sup>. Study results indicate that Missouri garners \$13 billion of defense contracts annually and there is an impact of about \$6.3 billion in wages and over 147,000 jobs.

Information from sources outside of Missouri also help paint a picture of the impact of NS industry spending in Missouri. A 2006 report by the Public Broadcasting System (PBS) shows Missouri at \$6.5 billion in annual contracts, lagging well behind NS industry leaders California, Virginia, and Texas in a middle pack of 8 states<sup>4</sup>. Even though Missouri captures substantial federal spending in support of the NS industry, our state's total and per capita DoD spending and defense employment do not rank us in the top 10 states nationally<sup>5</sup>.

According to Government Executive Magazine, DoD spends \$425 billion nationally, and the only Missouri-headquartered entity in the top 200 providers is Midwest Research Institute.<sup>6</sup>

Missouri is currently capturing about 3% of defense spending, which looks to be a significant achievement in that we have only 1.7% of the nation's population. However, given the experience of states similar to Missouri, this is unlikely to be the best that could be achieved.

In addition to national security-related contracts, DoD employs over 16,000 military and almost 10,000 civilians in Missouri. Federal payroll is over \$1.8 billion annually at Fort Leonard Wood, Whiteman AFB, the Reserves, and the National Geospatial-Intelligence Agency (NGA) Operations Center in Missouri.

In 2010, DHS allocated over \$37.1 million to Missouri across nine agency programs<sup>7</sup>. Honeywell Federal Manufacturing and Technologies, operator of DoE's Kansas City Plant, has an annual operating budget of over \$500 million and the current plant on Bannister Road is being replaced by a new, \$1.0 billion complex.

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<sup>1</sup> U.S. Base Realignment and Closure Commission. "2005 BRAC Closure and Realignment Impacts by State". September 15, 2005. [http://www.defense.gov/brac/pdf/Appendix\\_C\\_FinalUpdated.pdf](http://www.defense.gov/brac/pdf/Appendix_C_FinalUpdated.pdf)

<sup>2</sup> "Kansas Executive Order 06-02: Governor's Military Council". <http://governor.ks.gov/issues-a-initiatives/executive-orders/362-06-02>

<sup>3</sup> Missouri Economic Research and Information Center. November 2009. "The Economic Impact of Department of Defense Contracts in Missouri" November 2009.

<sup>4</sup> PBS Report. "Politics and Economy". January 26, 2006. <http://www.pbs.org/now/politics/defenseemap06.html#mo>

<sup>5</sup> Virginia National Defense Industrial Authority. "Analysis of U.S. Department of Defense Impact Data". <http://www.vndia.org/affectedbybrac.asp>

<sup>6</sup> Government Executive. "Top 200 Contractors". August 15, 2007, <http://www.govexec.com/features/0807-15/0807-15s2s1.htm2>

<sup>7</sup> Department of Homeland Security. "Preparedness Grant Program Overview". December 2009

An analysis<sup>8</sup> conducted in July 2009, projected that the University of Missouri Technology Park at FLW, with aggressive national marketing, could grow to 5 million square feet of facilities and over 22,000 new, high tech jobs within ten years.

Against these very encouraging figures, however, remains the fact that innovation today is not a Missouri strong suit. The Kauffmann Institute ranks Missouri 44th in Economic Dynamism<sup>9</sup>, while the Milken Institute Technology and Science ranks Missouri third tier with respect to its Index (2009).

### ***Best practices***

The states with the highest capture of DoD contracting dollars are California with \$28 billion, Virginia with \$23 billion, and Texas with \$21 billion. Even though these states are much larger than Missouri and have traditionally been the home of major military installations, each has world-class NS industrial and installation support mechanisms that have helped ensure good results from military basing decisions.

Efforts like that of the Virginia legislation in creating the Virginia National Defense Industrial Authority are worthy of study and emulation<sup>10</sup>. And in Texas the comptroller has a special focus on defense industries<sup>11</sup>. The state of Ohio does a very good job of tracking the impacts of NS investments in the state<sup>12</sup> and has invested aggressively in research and technology developments that are leveraging NS company growth<sup>13</sup>. The Kansas Governor's Military Council, as detailed above, is continuing its efforts on behalf of the state to protect and grow Defense operations in Kansas and are actively planning for the next BRAC round<sup>14</sup>.

### ***Proposed solutions***

Although Missouri cannot and should not invest all its efforts in a NS industry strategy, it should be noted that some of our competitor states have been very successful—in some cases much more successful than Missouri—at attracting, growing and retaining the companies, agencies and installations that make up our NS industry. The very significant impacts of NS industry growth around our country are undeniable and if Missouri desires to compete with that growth, it must implement a new strategy. As the state structures its overarching NS industry strategy, the following specific actions should be considered:

- a) Revamp the Missouri Military Preparedness and Enhancement Commission (MMPEC) mission to include economic impact and development and model its efforts on the Kansas Governor's Military Commission
- b) Develop a Missouri National Security Technology Partnership (MNSTP) to champion, establish and support programs that will assist businesses in matching innovative technology to NS needs and fully engage with NS efforts to transition newly discovered technologies to meet NS needs. Additionally, the MNSTP will create and follow roadmaps that enhance the state's ability to create sustainable job growth, compete on a national and global scale, and attract further business investments.
- c) Establish a program to aggressively recruit new National Security missions and facilities as part of the scope of this initiative<sup>15</sup>
- d) Study the National Security sector economic impact on Missouri in a comprehensive fashion. Good data and analysis is available for the Defense segment, but not for the other segments.
- e) Study the NS industry economic development strategies of California, Texas, Virginia, Ohio, Kansas and the other top performing states to identify best practices for adoption in Missouri.
- f) Form and help resource additional public/private sector partnerships like the Jordan Valley Innovation Center (JVIC)<sup>16</sup> and consider negotiating Partnership Intermediary Agreements (PIA's) and similar

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<sup>8</sup> For Leonard Wood RCGA. FLW RCGA, Tech Park Committee. July 2009

<sup>9</sup> Kauffmann Institute. 2009

<sup>10</sup> <http://www.vndia.org/>

<sup>11</sup> <http://www.window.state.tx.us/comptrol/fnotes/fn0808/>

<sup>12</sup> Ohio Department of Development. "Ohio's Aerospace & Defense Industries". <https://www.ohiothirdfrontier.com/research/files/B409000000.pdf>

<sup>13</sup> Ohio Department of Development. "Ohio Third Frontier Comprehensive Portfolio of Programs". <http://www.development.ohio.gov/ohiothirdfrontier/ProgramDescriptions.htm>

<sup>14</sup> <http://governor.ks.gov/issues-a-initiatives/military-and-veterans/542-governors-military-council>

<sup>15</sup> David Kerr briefing. July 29, 2010. "Indicates that military bases and federal facilities are not part of this initiative"

<sup>16</sup> <http://www.jvic.missouristate.edu>

agreements with DoD and other federal agencies that will bring more federal laboratory cooperation to our research institutions and small businesses.

- g) Establish and fund multi-disciplinary “innovation” centers to enable and support small business and university research and technology development aimed at National Security needs, like the Institute for Development and Commercialization of Advanced Sensor Technology (IDCAST) in Dayton, OH<sup>17</sup>.
- h) Consider establishing endowed chairs at Missouri universities focused on NS industry-defined research and development needs, and provide mechanisms to aid in product development and commercialization.
- i) Develop an aggressive discovery and market-based intellectual property strategy, and continue state actions to improve intellectual property protection
- j) Expand mechanisms to support long-term investment for technology-based economic development such as the Missouri Science and Innovation Reinvestment Act (MOSIRA)
- k) Support the Missouri workforce advantage by continuing and expanding the technical workforce pipeline in K12 STEM education
- l) Assist the federal government in providing security clearances to Missouri businesses and workers

#### ***Resources necessary to implement the actions***

- Assigning MMPEC new duties is costless, but its execution of new duties should be studied and may result in new tasks for the MO Department of Economic Development, including MERIC, the University of Missouri Economic and Policy Analysis Research Center (EPARC), and other agencies and organizations.
- Given similar experience in other states, the MNSTP would require an annual budget of about \$200,000.
- A program to aggressively recruit new National Security missions and facilities will require an annual budget of approximately \$300,000, and will require the hiring of new, expert personnel.
- Establishing additional public/private sector partnerships and multi-disciplinary centers will be a multi-million dollar investment for the state. Federal and private sector funding can be found to share the costs, but start-up will be costly. Experience has shown that the intermediate term pay-back can be many-fold.
- Studying the economic impact of the National Security sector in Missouri should cost less than \$40,000.
- Conducting a best practices study should cost less than \$100,000.
- The STEM pipeline investments are consistent with requests already pending and championed by the Department of Higher Education<sup>18</sup> and other agencies and organizations.
- Assisting small companies in their efforts to obtain federal security clearances would require the hiring of facility security specialists and others who would work in cooperation with federal authorities.

#### ***Immediate and long-range benefits and method to measure performance***

- More high-wage jobs and federal expenditures in Missouri.
- More opportunities for small businesses and established companies alike to grow and prosper.
- Maturing of the National Security sector in Missouri, which in itself will attract more National Security agencies and firms, and bring long-term growth momentum.

Performance measures would include number of new jobs and average salaries achieved, additional federal funds spent in Missouri, and percent of growth of the NS sector in Missouri, as measured by the number of agencies and companies. These factors could also be measured as a part of the Gross State Product (GSP)

Submitted on behalf of the Leonard Wood Institute and partners in the National Security Industry

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<sup>17</sup> <http://www.idcast.com>

<sup>18</sup> <http://www.dhe.mo.gov/ifc.html>